

# ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

OCTOBER 2002

## HIGHLIGHTS

### **Job Losses Continue**

In August, a mere 13 states registered job growth. While U.S. job growth is expected to resume by the end of the year; states (like Maryland) that entered the recession later than the U.S. are expected to resume job growth early next year.

### **Economy Still in Good Shape (Fed)**

The Federal Reserve noted that historically low interest rates are supporting U.S. economic growth, and there is little risk of falling back into a second recession. The Fed expects economic growth to pick up from its current pace by the second half of next year (see *Focus article*).

### **Consumer Spending and Housing Remain Strong**

In Maryland, consumer spending (on automobiles, restaurants and home improvements), personal income growth and housing demand remain strong.

## Snapshot Maryland

Economic news lately has been like the weather — unpredictable, at best. One day, there is sunshine all around, including a few positive earnings reports that meet or beat expectations; the next day, a barrage of gloomy forecasts.

First, some good news. Consider the housing market and related data. Housing construction rebounded strongly in September to reach its highest level in 16 years. In Maryland, the housing boom continued, with increases in new home construction and sales of new and existing homes. Housing values have also improved substantially in Maryland, especially in the Baltimore and Washington, DC metro areas. Interest rates are at their lowest level in four decades. This has helped with the housing boom and home refinancing.

Refinancing has put a lot of cash into the hands of homeowners, which has helped fuel consumer spending, restaurant sales, the home improvement industry and automobile sales. Incentives and zero-percent financing deals have also helped fuel automobile sales to their highest levels. Inflation remains low and under check. Personal income is still growing in Maryland, although the pace has slowed somewhat. Traffic through BWI Airport continues to grow, health services remains strong and federal government spending is creating jobs in Maryland.

So, what ails the economy? Jobs, jobs, jobs. The report on job losses have become consistent across industry sectors and across the nation. Maryland is now caught in a downward

spiral, although the state was fortunate to have avoided entering the downturn when the nation first entered a recession in March 2001. It is unlikely the nation will recover in positive job growth until the end of the year, and Maryland may have to wait a few additional months to begin significant job growth. Because state

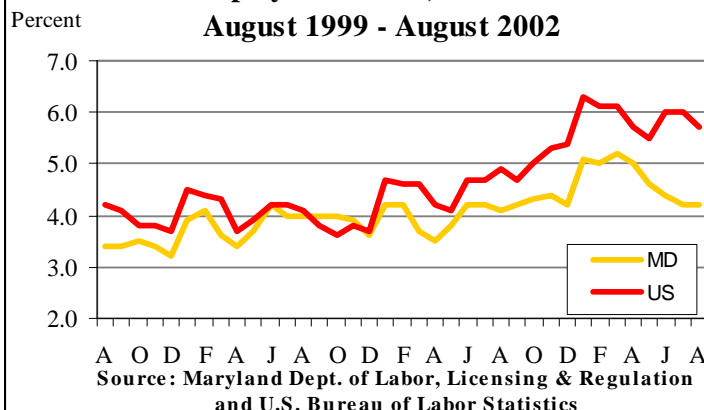
### **Labor Market Trends, August 2002**

(Percent Change, August 2001 - August 2002)

	MD	U.S.
Growth of Civilian Labor Force	2.2	0.9
Employment by Place of Residence	2.2	0.1
Job Growth (by place of work)	-1.3	-0.9
Temporary Cash Assistance – Caseload	-1.7	–
Change in Initial UI Claims	6.5	-3.9
Help-wanted Counts	-13.9	–
Unemployment Rate (current month, %)	4.2	5.7

### **Unemployment Rate, MD vs. U.S.**

August 1999 - August 2002



(continued on page 4)

Parris N. Glendening  
Governor

Kathleen Kennedy Townsend  
Lt. Governor

David S. Iannucci  
Secretary

James H. McLean  
Deputy Secretary

## Jobs and Sectors

Maryland lost 31,000 jobs over the past year — a loss of 1.3 percent of its job base — a slight improvement from July's job loss rate. The drop in jobs in the U.S. was also high — near 1.0 percent. In Maryland, job losses were significant in construction; manufacturing; transportation, communication

### Percent Change in Jobs August 2001 - August 2002

	MD	U.S.
Construction	-2.1	-2.0
Manufacturing	-3.6	-4.8
FIRE	-1.5	0.2
TCU	-3.1	-4.5
Trade	-1.7	-1.1
Services	-1.4	0.6
Business	-9.3	-1.6
Health	2.4	2.8
Government	1.5	1.4
Total	-1.3	-0.9

and utilities; wholesale and retail trade and services; the rate of job losses, however, fell slightly from July to August. Business services remained the hardest-hit of all job sectors. Federal government and health services continued to add jobs.

The construction sector lost 3,500 jobs in August, down from 7,200 jobs lost in July — a significant im-

provement. A recently-released report on Maryland's construction sector indicates that the sector may show improvement by the end of the year (see *Focus* article). The manufacturing sector lost 6,400 jobs in August (compared with the level of August 2001), somewhat less than the rate of job loss between July 2001 and July 2002. Wholesale and retail trades combined lost 9,500 jobs during the past year, while the transportation, communications and utilities (TCU) sector lost 3,600 jobs.

Job losses in business services continued to mount. This sector lost 19,300 jobs during the past year and the pace of job losses continues to remain extremely high. The only

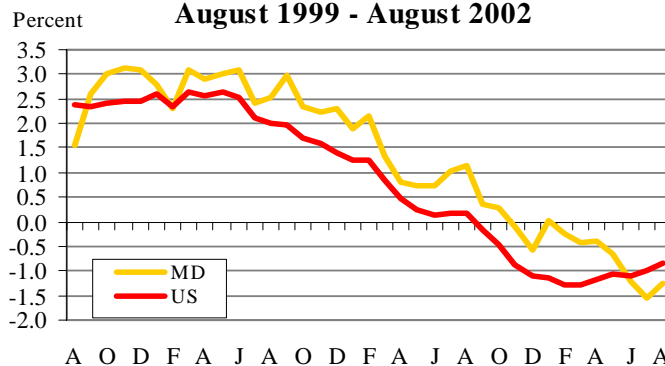
bright spot within the sector is staffing services — the sector that supplies temporary workers to firms reluctant to hire full-time employees.

Existing home sales rose 1.2 percent in Maryland during the past year but fell slightly in the nation. This remains one of the strongest sectors of the economy, even in the midst of a nationwide slump. New auto registrations also rose 4.0 percent in Maryland but remained unchanged nationally. Automobile manufacturers and dealers are providing significant incentives — including zero-percent financing deals — at the end of the 2002 model-year closeout to attract more potential customers to auto showrooms.

Cargo traffic at Baltimore/Washington International Airport continues to surge. From August 2001 to August 2002 the airport experienced a 26 percent gain in cargo volume, following a 34 percent gain in July. Passenger volume, however, fell nearly 11 percent from a year ago, as passengers remain wary of air travel. Data on the tourism sector were all down from year ago levels; including the hotel occupancy rate, welcome center visitors and tax receipts.

### Job Growth, MD vs. U.S.

August 1999 - August 2002



Source: U.S. Bureau of Labor Statistics

## Other Economic Indicators

- Job loss remains a major economic concern for Maryland. From August 2001 to August 2002, the state lost 1.3 percent of its job base. The state has registered a continuous — and generally increasing — rate of job loss beginning in November 2001.
- Only 13 states showed positive job growth in August, ranging from 1.3 percent in Nevada to 0.1 percent in Maine and New Hampshire. All other states and the District of Columbia registered job losses.

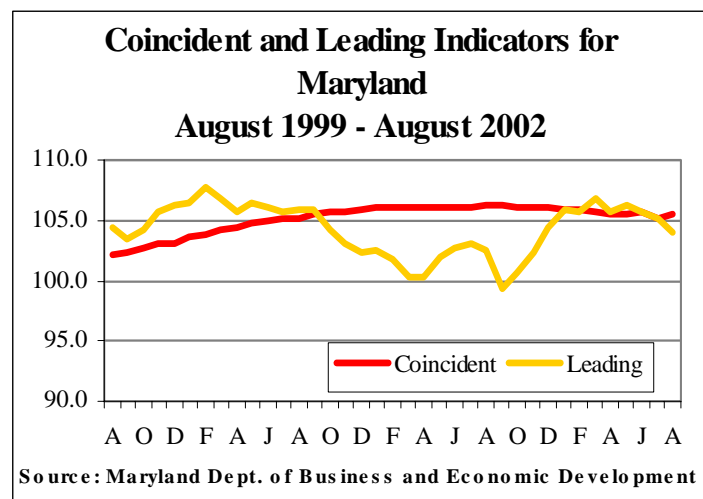
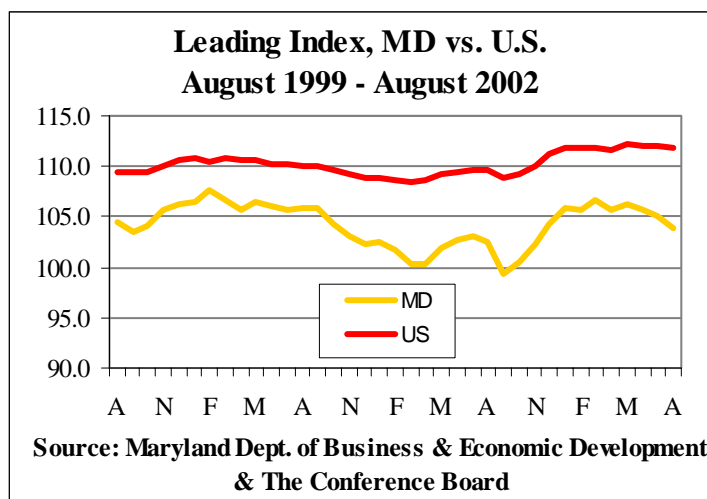
- Maryland's unemployment rate remained significantly below the national average but the gap is narrowing.
- Initial claims for UI rose 6.5 percent in Maryland but fell 3.9 percent in the U.S. from August 2001 to August 2002. National jobless counts have been bouncing up and down on a weekly basis, and a clear trend has not emerged.
- The manufacturing sector lost 3.6 percent of its job base in Maryland and 4.8 percent in the U.S. Average weekly hours and earnings in manufacturing industries, however,

(continued on page 3)

# Maryland Leading and Coincident Indices

The *Maryland index of leading indicators* dipped lower in August for the third consecutive month, down to 104.0 from 105.2 in the previous month. The leading index was up by 1.4 percent from a year ago. Only two out of the seven Maryland components, including BWI cargo and the stock index, provided a positive effect in August. None of the national components yielded a positive effect. While the indicator has been vacillating since early this year, the three consecutive declines is somewhat troubling, indicating considerable weakness in economic activity. These tenuous signs are evident in the national leading index, down slightly in August for the third consecutive month, as well, but up 2.0 percent from a year ago. The U.S. economy continues to struggle through a tentative recovery.

The *coincident index* stood at 105.4 in August up from 105.2 in the previous month. The indicator was down by 0.7 percent from a year ago. The index took back some of the decline suffered in the previous month. On a month-to-month basis, the tentative nature of the coincident indicator reflects the fluctuations in the Maryland leading index. In August, the U.S. coincident indicator was up by 0.1 percent from the previous month and was also up 0.1 percent from the same period a year ago. Month-to-month, the U.S. index has shown fairly steady improvement since early this year. The data appear to indicate that Maryland's economy is lagging behind the national economy.



## Economic Indicators (continued from page 2)

- remain strong. In August, Maryland's weekly hours reached 41.0 — close to the U.S. average of 41.1.
- Existing home sales rose modestly in Maryland (up 1.2 percent) but fell in the U.S. (down 3.6 percent) during the most recent 12-month period. Permits for new residential units, however, fell in Maryland during the August 2001-August 2002 period.
- In Maryland, automobile sales rebounded slightly in August (up 4.0 percent) after falling in July. New vehicle registrations have now risen during six of the first eight months.
- The Maryland stock index remained 10 percent below the level of August 2001. Nationally, the index was down 19 percent from a year ago.

- In other signs of a weak labor market, the *Baltimore Sun's* help-wanted count fell nearly 14 percent during the past year.

Unemployment Rates (Percent)				
	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
Aug 2002	4.2	5.7	4.3	5.7
Jul 2002	4.2	6.0	4.2	5.9
Aug 2001	4.1	4.9	4.1	4.9

Source: U.S. Bureau of Labor Statistics

---

## FOCUS: Maryland Business Survey - Construction

The latest edition of the Maryland Business Survey relates to the construction sector in Maryland and is the second in the series — a joint effort by the Maryland Department of Labor, Licensing and Regulation and the Maryland Department of Business and Economic Development. This survey covered businesses in the area of building, developing and general contracting (NAICS 236), heavy construction (NAICS 237) and special trade contractors (NAICS 238). The survey provides data and analysis for the entire state, as well as for the Baltimore Metro area, the Washington, D.C. Metro area, Western Maryland, Southern Maryland and the Eastern Shore. The survey was sent to 2,388 businesses in the three NAICS code classifications. There were 629 usable responses. The resulting response rate was 26.3 percent.

The survey shows that Maryland's construction sector was contracting during the six-month period prior to June 2002 (December 2001 to May 2002), a period when the nation's economy was showing signs of recovering from the recession and the Maryland economy had slowed considerably. In the six-month period prior to June 2002, there was a net loss of 877 jobs. During that time, 171 firms reported that they had cut their workforce, compared to 152 firms that added employees. The remaining 306 firms indicated no change in employment. Firms that downsized cut 2,019 jobs, while firms that expanded added 1,142 jobs, resulting in the net loss of 877 jobs during that six-month period. The Baltimore region and the Washington D.C. region accounted for nearly all of the net loss in jobs during the six-month period prior to June 2002. The Baltimore area indicated a net loss of 490 positions, while the D.C. area reported a net loss of 411 positions. On the other hand, Southern Maryland showed a net gain of 58 positions between December 2001 and May 2002.

The survey also shows that the effects of the national recession are beginning to diminish. During the six-month period from July to December 2002, 188 firms plan to add employees, as compared with only 23 firms that plan cut-

backs. It is expected that expanding firms will add 1,275 net jobs while contracting firms will reduce their workforce by only 159 jobs. In other words, we expect a net addition of 1,116 jobs by December 2002. Special trade contractors appear likely to provide the majority of the net increase in employment (819 jobs) for the July-December 2002 period. In addition, the heavy construction sector also expects a net increase of 285 positions over the period. Building construction, on the other hand, does not appear likely to beat its prior gains, anticipating a relatively small net increase in jobs. During the six-month period from July-December 2002, the D.C. area is expected to experience a fairly strong recovery with a net gain of 604 positions. The Baltimore area is second with a net increase of 355 positions. The Eastern Shore, Southern Maryland and Western Maryland also show small net gains.

When combined with the responses for the previous six months, the resulting yearlong period shows a net addition of 239 net new jobs in Maryland's construction sector. Over this yearlong period, the building construction sector is expected to have the largest net gain in jobs, at 247. Special trade contractors indicate a net gain of 111 jobs over the twelve months, while heavy construction is expected to have a net loss of 119 positions. The two periods covered in the survey suggest that the D.C. area will experience the strongest recovery with the addition of 193 net jobs. Southern Maryland is also expected to fare well, with a net increase of 119 jobs over the two periods. The Eastern Shore and Western Maryland indicate some net additions over the yearlong period. The Baltimore area, however, shows a net loss of 135 positions.

In addition to questions relating to employment, the surveyed firms were asked about factors that affected their decision to expand or contract. The respondents indicated that internal business costs and the availability of labor were the two primary causes of expansion and contraction in the construction sector. A significant number of respondents indicated that labor shortage was a major concern.

---

### Snapshot Maryland (continued from page 1)

tax revenues lag job and income growth, most states are expected to have difficult budget challenges ahead. Almost every state in the U.S. is currently in a budget shortfall or expected to experience one.

Along with significant job losses, jobless claims are on the

rise again, both nationally and in Maryland. If job market weakness lingers for a prolonged period of time, many states will see unemployment insurance trust funds dwindle. Other bad news includes continuing job losses in the manufacturing sector, retail trade, transportation and communication

(continued on page 5)



## FOCUS: Uncertainty Abounds

Economic uncertainties may short-circuit the tentative recovery. Indeed, consumer, business and investor confidence are flagging. While these measures of sentiment tend to reflect economic conditions rather than significantly influence the state of the economy, such attitudes can affect the timing of decisions, especially with the purchase of durable goods and capital equipment. Thus, confidence can have an important influence on whether the national economy slips further or is driven toward growth.

Recent data on household attitudes raise concerns. The Conference Board's consumer confidence index fell to 93.3 in September, down for the fourth consecutive month. If consumer sentiment continues to falter, then household spending, the primary strength of the economy, may not be able to sustain itself and, in turn, will erode the outlook for the economy. One factor contributing to the anxiety of the consumer is the bleak labor market. While layoff announcements have slowed, businesses continue to refrain from hiring. If employment conditions deteriorate further, then households may pull back on spending.

Investors have little to cheer about, as well. Since early 2000, shareholders have seen their wealth decline by some \$7 trillion — down over 40 percent, at least on paper. The weak economy, corporate accounting problems and the risk of war or terrorist attacks are the primary factors weighing down the stock market. These concerns are reflected in the UBS Index of Investor Optimism that, although rising mod-

estly for two straight months, remains at a very low level in comparison to its nearly six-year history of the survey.

With respect to the business sector, whatever bright spots that may have been emerging earlier this year appear to have been put on hold. The slowdown in economic growth and the slumping stock market continue to restrain business spending. If the corporate sector is waiting for the business outlook to improve, then the index of leading indicators is not a good omen. The leading index has vacillated over the course of this year, signaling that the recovery has stalled.

After responding aggressively with 11 interest rate cuts in 2001, the Federal Reserve has refrained from rate cuts this year. With the target for the federal funds rate already at a low 1.75 percent, however, there is not much room for policymakers to maneuver. Analysts have indicated that further reductions in the interest rate would prevent the Fed from being able to respond should a financial crisis occur. In addition, there is the question of whether lower rates would significantly help provide further stimulus to the beleaguered economy since businesses and households still need to make the decision to spend despite the uncertain conditions.

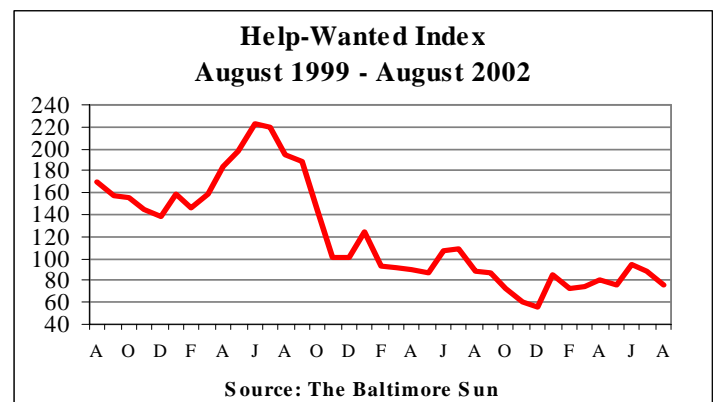
The fiscal infusion being provided by the federal government will, in part, help minimize some of the effects to the U.S. economy. The increased spending, however, has undermined federal budget conditions.

## Snapshot Maryland (continued from page 4)

services and business services. Other recent data show that the nation's industrial output fell again: machine tools orders fell 25 percent, business inventories declined and retail sales fell. In the Metro Washington, DC area, the tragic sniper attacks have added additional uncertainty to tourist and retail-based businesses. Other uncertainties include the possibility of war, its potential impact on oil supplies and the potential human and economic costs of war.

Maryland's labor force, as well as the number of employed persons (by place of residence), grew 2.2 percent — very strong growth in the midst of a weak economy. The U.S. labor force grew 0.9 percent from August 2001 to August 2002, while employment rose modestly. Maryland's unemployment rate (not seasonally adjusted) remained virtually unchanged over the year at 4.2 percent. The U.S. unemployment rate rose from 4.9 percent a year ago to 5.7 per-

cent in August 2002. In Maryland, initial claims for unemployment insurance (UI) rose 6.5 percent in August. Temporary Cash Assistance (TCA) caseload fell 1.7 percent over the year. Help-wanted counts, however, worsened further.



## Selected Monthly Economic Indicators

	Maryland					U.S.				
			Percent Change		Percent Change			Percent Change		Percent Change
	Aug 2002	Jul 2002	From Last Month	Aug 2001	From Last Year	Aug 2002	Jul 2002	From Last Month	Aug 2001	From Last Year
Selected Indicators										
Labor Market										
Labor Force (U.S. in Thousands)	2,929,233	2,960,813	-1.1	2,864,786	2.2	143,176	143,885	-0.5	141,862	0.9
Employment (U.S. in Thousands)	2,806,585	2,835,820	-1.0	2,747,414	2.2	135,028	135,289	-0.2	134,905	0.1
Unemployment Rate	4.2	4.2	0.0	4.1	2.4	5.7	6.0	-5.0	4.9	16.3
Sun Help-Wanted Counts, Baltimore MSA	16,922	19,785	-14.5	19,650	-13.9					
Initial Claims for Unemployment Insurance	18,390	18,787	-2.1	17,261	6.5	1,396,488	1,892,000	-26.2	1,452,683	-3.9
TCA Caseload	28,854	28,254	2.1	29,359	-1.7					
TCA Cases Closed	3,178	3,248	-2.2	2,961	7.3					
Jobs and Sectors										
Total Non-Agricultural Employment (Thousands)	2,428.0	2,428.4	0.0	2,459.0	-1.3	130,673	130,589	0.1	131,797	-0.9
Construction (Thousands)	165.2	162.1	1.9	168.7	-2.1	6,863	6,851	0.2	7,002	-2.0
Manufacturing (Thousands)	171.6	172.1	-0.3	178.0	-3.6	16,779	16,749	0.2	17,629	-4.8
FIRE (Thousands)	142.4	143.0	-0.4	144.5	-1.5	7,815	7,813	0.0	7,797	0.2
TCU (Thousands)	113.8	113.4	0.4	117.4	-3.1	6,754	6,764	-0.1	7,075	-4.5
Trade (Thousands)	552.6	555.1	-0.5	562.1	-1.7	30,159	30,176	-0.1	30,509	-1.1
Services (Thousands)	869.2	870.8	-0.2	881.3	-1.4	41,628	41,582	0.1	41,374	0.6
Business (Thousands)	188.2	187.3	0.5	207.5	-9.3	9,470	9,368	1.1	9,629	-1.6
Health (Thousands)	207.9	207.6	0.1	203.0	2.4	10,737	10,715	0.2	10,446	2.8
Government (Thousands)	411.5	410.2	0.3	405.4	1.5	20,110	20,095	0.1	19,830	1.4
Average Weekly Earnings (\$)	668.71	666.58	0.3	615.78	8.6	629.24	614.98	2.3	609.00	3.3
Average Weekly Hours	41.0	41.3	-0.7	40.3	1.7	41.1	40.3	2.0	40.9	0.5
Business and Consumer Markets										
BWI Cargo (Metric Tons)	21,935	19,539	12.3	17,371	26.3					
BWI Passengers (Millions)	1.86	1.82	2.3	2.09	-11.2					
Electric Meters Installed, Commercial <sup>1</sup>	111	190	-41.6	109	1.8					
Electric Meters Installed, Residential <sup>1</sup>	684	980	-30.2	900	-24.0					
Electricity Sales, Commercial (Millions of kWh) <sup>1</sup>	1.67	1.45	15.0	1.62	3.1					
Electricity Sales, Residential (Millions of kWh) <sup>1</sup>	1.17	0.78	48.8	1.04	12.7					
Existing Home Sales (U.S. in Thousands)	8,042	7,936	1.3	7,949	1.2	539	536	0.6	559	-3.6
New Auto Registration	38,965	30,367	28.3	37,452	4.0	1,426,631	1,507,596	-5.4	1,431,168	-0.3
New Residential Permits Authorized	2,224	2,517	-11.6	2,467	-9.9	150,447	157,340	-4.4	148,486	1.3
Indexes										
Leading Index	104.0	105.2	-1.1	102.5	1.4	111.8	112.0	-0.2	109.6	2.0
Help-Wanted Index	75.5	88.3	-14.5	87.7	-13.9	41	44	-6.8	52	-21.2
CPI	N/A	113.4	N/A	N/A	N/A	180.7	180.1	0.3	177.5	1.8
Stock Index	183.5	180.9	1.4	204.0	-10.0	916.1	911.6	0.5	1,133.6	-19.2
Tourism										
Hotel/ Motel Occupancy Rate (%)	73.9	73.8	0.1	75.4	-2.0					
State Welcome Center Visitors	257,271	271,893	-5.4	265,223	-3.0					
Amusement & Admission Tax (Millions of Dollars)	5.57	6.16	-9.6	5.98	-6.9					
Hotel /Motel Sales Tax (Millions of Dollars)	6.38	5.79	10.2	6.53	-2.3					

Notes:

<sup>1</sup> BGE data are for June 2002.



Parris N. Glendening, Governor  
Kathleen Kennedy Townsend, Lt. Governor

David S. Iannucci, Secretary, Department of Business and Economic Development  
James H. McLean, Deputy Secretary, Department of Business and Economic Development  
Rhonda Ray, Assistant Secretary, Office of Economic Policy and Legislation

*Economic Pulse* is published monthly by Pradeep Ganguly,  
Office of Economic Policy and Legislation  
Editors, Phyllis S. Cloud, Zina Stennett  
Editorial Assistance, James R. Moody  
Project Development, Fereidoon Shahrokh  
Contributing Editors, Pradeep Ganguly, Roger Fujihara  
Design and Modeling, Massoud Ahmadi  
Graphic Design, James R. Moody, Roger Fujihara  
Distribution, Elver Bell, Zina Stennett

Please address any questions or comments to Pradeep Ganguly, 410-767-6398  
The *Economic Pulse* is available on the Internet at:  
[www.choosemaryland.org/pressroom/publications/](http://www.choosemaryland.org/pressroom/publications/)